Bivariate Pòlya-Aeppli risk model

Krasimira Kostadinova

Abstract: In this paper we consider a risk model in which the claim counting process is the bivariate Pòlya-Aeppli process, defined by Minkova and Balakrishnan in [9]. We call it a bivariate Pòlya-Aeppli risk model. We also consider two types of ruin probability for this risk model and find the Laplace transform for the ruin probability. We investigate in detail the particular case of exponentially distributed claims.

Key words: Ruin probability, Pòlya-Aeppli process, bivariate geometric distribution.

1. INTRODUCTION

In many cases, the claims to the insurance company can arrive simultaneously. For example, an accident can cause two claims simultaneously: for motor insurance and for personal injury. Thus, for modelling we need some bivariate risk model.

The surplus process of an insurance company is described by

\[ U(t) = u + ct - \sum_{i=1}^{N(t)} Z_i, \quad \sum_{i=1}^{0} = 0, \quad t \geq 0, \]

where \( u \) is the initial capital, \( c \) represents the premium income per unit time and \( N(t) \) is a homogeneous Poisson process with intensity \( \lambda > 0 \) (\( N(t) \sim \text{Po}(\lambda t) \)). \( Z_i, i = 1, 2, \ldots \) is a sequence of independent, identically distributed random variables (iid r.v.'s), independent of the counting process \( N(t) \).

Mostly, a compound Poisson process is used for the counting process in the process \( U(t) \). A compound Poisson process can be represented by the sum

\[ N(t) = X_1 + X_2 + \cdots + X_{N_1(t)}, \]

where \( N_1(t) \sim \text{Po}(\lambda t) \) and \( X_1, X_2, \ldots \) are iid r.v.'s, independent of \( N_1(t) \), see [4], [6], [7] and [8]. The probability generating function (PGF) of the process \( N(t) \) in (2) is given by

\[ \psi_{N(t)}(s) = e^{-\mu(1-s_i)} \]

where \( \psi_i(s) \) is the PGF of the compounding random variable \( X \). In the case of geometric compounding distribution, i.e. \( X_i \sim \text{Ge}_1(1 - \rho), i = 1, 2, \ldots \), \( N(t) \) has a Pòlya-Aeppli distribution with parameters \( \lambda t \) and \( \rho \) (\( N(t) \sim \text{PA}(\lambda t, \rho) \)). The defined process is called a Pòlya-Aeppli process. For the Pòlya-Aeppli process we use the notation \( N(t) \sim \text{PAP}(\lambda, \rho) \), see [2]. The probability mass function (PMF) is given in the next theorem (see [3] and [8]).

**Theorem 1.1.** The probability mass function of \( \text{PAP}(\lambda, \rho) \) is given by

\[ P(N(t) = i) = \begin{cases} e^{-\lambda t}, & i = 0, \\ e^{-\lambda t} \sum_{m=0}^{i-1} \frac{(\lambda t(1 - \rho))^m}{m!} \rho^{i-m}, & i = 1, 2, \ldots \end{cases} \]

In this paper we suppose that the compounding r.v. \( X = (X_1, X_2) \) has a bivariate geometric distribution, i.e. we introduce a process with Type II Bivariate Pòlya-Aeppli distribution. The Type II Bivariate Pòlya-Aeppli distribution was defined by Minkova and Balakrishnan in [9]. The PGF of the bivariate geometric distribution (\( \text{BivGe}(\alpha, \beta) \)), see [5], is given by

\[ \psi_{1,s_1,s_2} = \frac{\gamma}{1 - \alpha s_1 - \beta s_2}, \]

where \( \alpha \) and \( \beta \) are nonnegative parameters and \( \gamma = 1 - \alpha - \beta \). Then we define a bivariate process \( (N_1(t), N_2(t)) \) with joint PGF given by
We can give the following definition of Type II Bivariate Pólya-Aeppli process and its PMF.

**Definition 1.1.** The bivariate process \((N_1(t), N_2(t))\), corresponding to (6), is called Type II bivariate Pólya-Aeppli process \((BPAP(\lambda, \alpha, \beta))\), with parameters \(\lambda, \alpha\) and \(\beta\).

**Theorem 1.2.** The probability mass function of \(BPAP(\lambda, \alpha, \beta)\) process is given by

\[
f(i, j) = \binom{i+j}{i} \alpha^i \beta^j \sum_{m=0}^{\infty} \frac{(\lambda m)^m}{m!} \frac{1}{i+j}, \quad i, j = 0, 1, \ldots, (i, j) \neq (0, 0).
\]  

2. **BIVARIATE RISK MODEL**

Let us consider the following bivariate surplus process for two lines of business

\[
U_1(t) = u_1 + c_1 t - \sum_{j=1}^{N_1(t)} Z_j,
\]

\[
U_2(t) = u_2 + c_2 t - \sum_{j=1}^{N_2(t)} Z_j^2
\]

Here \(u_1\) and \(u_2\) are the initial capitals; \(c_1\) and \(c_2\) represent the premium incomes per unit time and \(Z_1, Z_1', Z_2, \ldots, Z_2^2, Z_2^2', \ldots\) are two independent sequences of iid r.v.'s, independent of the counting processes \(N_1(t)\) and \(N_2(t)\), representing the corresponding claim sizes. Let \(\mu_1 = E(Z_1)\) and \(\mu_2 = E(Z_2)\) be the means of the claims. Denote by \(S_1(t) = \sum_{j=1}^{N_1(t)} Z_j\) and \(S_2(t) = \sum_{j=1}^{N_2(t)} Z_j^2\) the corresponding accumulated claim processes.

We consider (8), where \(N_1(t)\) and \(N_2(t)\) are Pólya-Aeppli counting processes and we call this model a bivariate Pólya-Aeppli risk model. The case of \(N_1(t) = N_2(t) = N(t)\) is analysed in [1].

In this note we are going to consider two possible times to ruin

\[
\tau_{\text{max}} = \inf \{ t \mid \max(U_1(t), U_2(t)) < 0 \}
\]

and

\[
\tau_{\text{sum}} = \inf \{ t \mid U_1(t) + U_2(t) < 0 \},
\]

and the corresponding ruin probabilities

\[
\psi_{\text{max}}(u_1, u_2) = P(\tau_{\text{max}} < \infty)
\]

and

\[
\psi_{\text{sum}}(u_1, u_2) = P(\tau_{\text{sum}} < \infty).
\]

2.1. **LAPLACE TRANSFORMS**

Denote by \(LT_{Z_1}(s_1)\) and \(LT_{Z_2}(s_2)\) the Laplace transforms of the r.v.'s \(Z_1\) and \(Z_2\). Then, the Laplace transform of \((S_1(t), S_2(t))\) is given by
\[ LT_{(S_1(t), S_2(t))}(s_1, s_2) = E[e^{-s_1 S_1(t) - s_2 S_2(t)}] = \sum_{i=0}^{\infty} \sum_{j=0}^{\infty} E[e^{-s_1 (Z_1^i + \ldots + Z_1^j) - s_2 (Z_2^i + \ldots + Z_2^j)}] P(N_i(t) = i, N_j(t) = j) = \]
\[ = \psi_{(N_i(t), N_j(t))}(LT_{Z_1^i}(s_1), LT_{Z_2^j}(s_2)) = e^{-\int_0^{s_2} \rho \frac{d\rho}{1 - \rho \gamma}} e^{-\int_0^{s_1} \rho \frac{d\rho}{1 - \rho \gamma}}, \]

where \( \gamma = 1 - \alpha - \beta \).

The Laplace transforms of the marginal compounding distributions are given by
\[ LT_{S_1(t)}(s_1) = LT_{(S_1(t), S_2(t))}(s_1, 0) = e^{-\int_0^{s_1} \rho \frac{d\rho}{1 - \rho \gamma}}, \rho_1 = \frac{\alpha}{1 - \beta} \]
and
\[ LT_{S_2(t)}(s_2) = LT_{(S_1(t), S_2(t))}(0, s_2) = e^{-\int_0^{s_2} \rho \frac{d\rho}{1 - \rho \gamma}}, \rho_2 = \frac{\beta}{1 - \alpha}. \]

For the ruin probability \( \psi_{\text{sum}} \) we have
\[ LT_{S_1(t)}(s_1) + LT_{S_2(t)}(s_2) = LT_{(S_1(t), S_2(t))}(s, s) = e^{-\int_0^{s} \rho \frac{d\rho}{1 - \rho \gamma}} \]

In the next lemma we use a result related to Laplace transforms, given in [10].

**Lemma 2.1.** For the joint survival function \( P(S_1(t) > x, S_2(t) > y) \) we have
\[ \int_0^\infty \int_0^\infty e^{-s_1 x - s_2 y} P(S_1(t) > x, S_2(t) > y) dx dy = 1 - LT_{S_1(t)}(s_1) - LT_{S_2(t)}(s_2) + LT_{(S_1(t), S_2(t))}(s_1, s_2) = \frac{s_1 s_2}{s_1 s_2} \]
\[ = 1 - e^{-\int_0^{s_1} \rho \frac{d\rho}{1 - \rho \gamma}} \]
\[ - e^{-\int_0^{s_2} \rho \frac{d\rho}{1 - \rho \gamma}} + e^{-\int_0^{s_1} \rho \frac{d\rho}{1 - \rho \gamma}} \]

**Lemma 2.2.** For the survival function \( P(S_1(t) + S_2(t) > x) \) we obtain
\[ \int_0^x e^{-s} P(S_1(t) + S_2(t) > x) dx = \frac{1}{s} [1 - LT_{S_1(t), S_2(t)}(s)] = \frac{1}{s} [1 - e^{-\int_0^{s} \rho \frac{d\rho}{1 - \rho \gamma}}]. \]

**2.2. EXPONENTIALLY DISTRIBUTED CLAIMS**

Let us consider the case of exponentially distributed claim sizes, i.e. \( F_{Z_2^j}(x) = 1 - e^{-x \mu_j}, x \geq 0 \) and \( G_{Z_2^j}(y) = 1 - e^{-y \mu_j}, y \geq 0 \), and \( \mu_1, \mu_2 > 0 \). Denote by
\[ e(n, x) = \sum_{k=0}^{n} \frac{x^k}{k!} = \frac{e^x \Gamma(n+1, x)}{\Gamma(n+1)}, \]
a truncated exponential sum function, where $\Gamma(n)$ is a Gamma function and $\Gamma(a, x) = \int_0^x e^{-t} t^{a-1} dt$ is the incomplete Gamma function. For the ruin probability $\psi_{\text{max}}$ we have

$$P(S_i(t) > x, S_j(t) > y) = \sum_{i=0}^{\infty} \sum_{j=0}^{\infty} \mathcal{F}^{ji}(x) G^{ij}(y) P(N_i(t) = i, N_j(t) = j),$$

where

$$\mathcal{F}^{ji}(x) = e^{-x \frac{\gamma}{\mu_i}} \left(1 - e^{-x \frac{\gamma}{\mu_j}}\right), \quad i = 1, 2, \ldots \quad \text{is the tail distribution of } Z_i + \ldots + Z_i^j$$

and

$$G^{ij}(y) = e^{-y \frac{\gamma}{\mu_j}} \left(1 - e^{-y \frac{\gamma}{\mu_i}}\right), \quad j = 1, 2, \ldots \quad \text{is the tail distribution of } Z_i^2 + \ldots + Z_i^j.$$

In this case we have

$$P(S_i(t) > x, S_j(t) > y)$$

$$= e^{-\lambda t(1-\gamma)} + \sum_{i=1}^{\infty} e^{(i-1) \frac{\gamma}{\mu_i}} \sum_{j=1}^{\infty} e^{(j-1) \frac{\gamma}{\mu_j}} \frac{1}{\gamma} \left(\lambda t\right)^m m! e^{-\frac{x \lambda t \gamma}{m!}} e^{-\frac{x \gamma t}{\mu_i}} e^{-\lambda t \gamma}$$

$$+ \sum_{j=1}^{\infty} \sum_{i=1}^{\infty} e^{(i-1) \frac{\gamma}{\mu_i}} \sum_{j=1}^{\infty} e^{(j-1) \frac{\gamma}{\mu_j}} \frac{1}{\gamma} \left(\lambda t\right)^m m! e^{-\frac{x \lambda t \gamma}{m!}} e^{-\frac{x \gamma t}{\mu_i}} e^{-\lambda t \gamma}.$$

Substituting $x = u_1 + c_1 t$ and $y = u_2 + c_2 t$ in (22), we obtain the ruin probability $\psi_{\text{max}}(u_1, u_2)$.

For the ruin probability $\psi_{\text{sum}}(u_1, u_2)$ in the case of $Z^i = Z^2 = Z$, and hence $\mu_1 = \mu_2 = \mu$, we obtain the Laplace transform of the sum $S_i(t) + S_2(t)$

$$LT_{S_i(t) + S_2(t)}(s) = e^{-\lambda t(1-\gamma)} + \sum_{i=1}^{\infty} \sum_{j=1}^{\infty} e^{(i-1) \frac{\gamma}{\mu_i}} \sum_{j=1}^{\infty} e^{(j-1) \frac{\gamma}{\mu_j}} \frac{1}{\gamma} \left(\lambda t\right)^m m! e^{-\frac{x \lambda t \gamma}{m!}} e^{-\frac{x \gamma t}{\mu_i}} e^{-\lambda t \gamma}.$$

This means that

$$S_i(t) + S_2(t) = Z_1 + \ldots + Z_{N(t)},$$

where $N(t)$ has a modified Pólya-Aeppli distribution with parameters $\lambda \gamma > 0$ and $\gamma \in [0, 1)$

$$P(N(t) = i) = \begin{cases} e^{-(1-\gamma)\lambda t} \cdot i = 0, \\ e^{-(1-\gamma)\lambda t} \sum_{j=1}^{i-1} \frac{(\gamma \lambda t)^j}{j!} \cdot i = 1, 2, \ldots \end{cases}$$

The survival function of the sum $S_i(t) + S_2(t)$ is the survival function of the sum of claims, i.e.

$$P(S_i(t) + S_2(t) > x) = P(Z_1 + \ldots + Z_{N(t)} > x) = \sum_{i=0}^{\infty} \mathcal{F}^{ji}(x) P(N(t) = i),$$

where $\mathcal{F}^{ji}(x) = e^{-x \frac{\gamma}{\mu_i}} \left(1 - e^{-x \frac{\gamma}{\mu_j}}\right), \quad i = 1, 2, \ldots \quad \text{is the tail distribution of } Z_1 + \ldots + Z_i$. Hence we have

$$P(S_i(t) + S_2(t) > x) = e^{-(1-\gamma)\lambda t} + \sum_{i=1}^{\infty} \sum_{j=1}^{\infty} \mathcal{F}^{ji}(x) \sum_{j=1}^{\infty} \frac{(\gamma \lambda t)^j}{j!} \cdot (1-\gamma)^{i} e^{-(1-\gamma)\lambda t}$$

$$= e^{-(1-\gamma)\lambda t} + \sum_{i=1}^{\infty} (1-\gamma)^{i} \sum_{j=1}^{\infty} \frac{(\gamma \lambda t)^j}{j!} e^{-\frac{x \gamma t}{\mu_i}} e^{-(1-\gamma)\lambda t}.$$
and for \( x = u_1 + u_2 + (c_1 + c_2)t \), we obtained the ruin probabilities \( \psi_{\text{sum}} \).

3. CONCLUSIONS
In this study we define a bivariate Pólya-Aeppli risk model. We introduce two types of ruin probability for the defined risk model. We also obtain the Laplace transform of the ruin probability and investigate a special case of exponentially distributed claims.

REFERENCES

ABOUT THE AUTHOR
Assist.Prof. Krasimira Kostadinova, Faculty of Mathematics and Informatics, Shumen University, Phone: +359 54 830 495, E-mail: kostadinova@shu-bg.net.